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IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1971

No. 71-1196

RALPH E. COREY and
ROBERT M. KIMBROUGH, Petitioners

v.

STATE SAVINGS & LOAN ASSOCIATION,
WALLACE C.S. YOUNG, and BETTER
BUILT HAWAII, LTD., Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE SUPREME COURT OF HAWAII; APPENDICES A, B, C, D, and E

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INDEX

Opinions Below 2
Jurisdiction 2
Questions Presented 4
Constitutional Provision, Statutes and Rules Involved 8
Statement of the Case 9
Reasons for Granting the Writ 31
Conclusion 41
Appendix A - Constitutional Provision, Statutes and Rules 43
B - Opinion Below 51
C - Petition for Rehearing ... 67
D - Per Curiam Opinion 99
E - Judgment on Appeal 100

CITATIONS

Cases:

Agata v. Kahului Dev. Co., 49 Haw. 378 38
Akizaki v. Fong, 51 Haw. 354 33
Almeida v. Correa, 51 Haw. 594 32
Barber v. Connolly, 113 U.S. 27 34
Barrows v. Jackson, 346 U.S. 249 28
Bertlemann v. Lucas, 35 Haw. 335 36
Brinkerhoff-Faris Co. v. Hill, 281 U.S. 673 28
Burbank v. Wood, 2 Haw. 591 22
City of Chicago v. Sheldon, 76 U.S. 50 22
City Council v. Fasi, 52 Haw. 3 33

Ellis v. Crockett, 51 Haw. 45..... 18, 22, 24, 25, 26, 28, 38, 39
Frank v. Mangrum, 256 U.S. 94 28
Gelfert v. National City Bank, 313 U.S. 221 38
Glover v. L.K. Fong, 42 Haw. 560..... 36
Gulf, Colorado & Sante Fe Railway Co. v. Ellis, 165 U.S. 150..... 31, 42
Havermeyer v. Iowa County, 70 U.S. 294..... 22
Hawaii Nat'l. Bank v. Okino, 51 Haw. 367 33
Hosey v. Club Van Cortland, 299 F. Supp. 501..... 28
In Re Bishop Estate, 36 Haw. 403 .... 18, 25, 28, 36
In Re Estate of Chun O.Y. Hop, 52 Haw. 40..... 32
In Re Female Minor Child, 52 Haw. 395 32
In Re Trask, 46 Haw. 404 ..... 30, 40
Iwamoto v. Hirata, 49 Haw. 514..... 32
Mackenzie v. King, 30 Haw. 230 .... 23, 28
Makainai v. Lalakea, 29 Haw. 629..... 36
Matsumoto v. Kahu, 52 Haw. 629.... 32
Missouri v. Gehner, 281 U.S. 313... 41
New York Times v. Sullivan, 376 U.S. 254..... 28
Nishi v. Hartwell, 52 Haw. 188..... 33
Owenby v. Morgan, 256 U.S. 94..... 28
Puget Sound Power & Light Co. v. King County, 264 U.S. 22..... 3
Rainbow Island Productions, Inc.

v. Leong Agency, 44 Haw. 134 .... 24, 28
Reed and Martin v. City and County, 50 Haw. 347 ..... 23, 28
Republic Pictures Corp. v. Kappler, 151 F.2d 543, affd. 327 U.S. 757 28
Re Land Title, State of Hawaii, 49 Haw. 537 32
Saunders v. Shaw, 244 U.S. 317 41
Shelley v. Kraemer, 334 U.S. 1 28
Southern Bank v. Pilsbury, 105 U.S. 278 23
Southern Pacific R. Co. v. U.S., 168 U.S. 1 ..... 18, 36
Toho Bussan Karsha Ltd. v. American President Lines, Ltd., 265 F.2d 418 24
Union Bank of Richmond Va. v. Board of Com'rs. of Oxford N.C., 90 F. 7 23
Yick Wo v. Hopkins, 118 U.S. 356 ..... 31, 41, 42
Young v. Price, 50 Haw. 430 32

Constitutional Provision:

Fourteenth Amendment to the Constitution of the United States 9, 22, 27, 28, 30, 33, 35, 38, 40, 43

Statutes:

Hawaii Revised Statutes
§ 1-1 ..... 9, 43

§ 1-6 ..... 9, 43
§ 602-13 ..... 9, 44
§ 605-9 ..... 9, 44

Rules of the Supreme Court of Hawaii:

Rule 5 9
Rule 10 ..... 2, 9
Rule 16 ..... 9, 30
40

Texts:

1 B Moore's Fed. Prac.,
Sec. 0.402(3-1, pp. 151-157 34

IN THE SUPREME COURT
OF THE UNITED STATES

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RALPH E. COREY and ROBERT M. KIMBROUGH, Petitioners,	)	
vs:	)	No. 71-____
STATE SAVINGS & LOAN ASSOCIATION, WALLACE C. S. YOUNG, and BETTER-BUILT HAWAII, LTD.; Respondents.	)	

PETITION FOR A WRIT OF CERTIORARI
TO THE SUPREME COURT OF HAWAII

Petitioners pray that a writ of certiorari issue to review the judgment of the Supreme Court of Hawaii, hereinafter called the "appellate court," entered in the above-entitled case on October 22, 1971.

CITATIONS TO OPINIONS BELOW

The Opinion of the appellate court, printed in Appendix B, infra, is reported in 53 Haw. 132. The appellate court's per curiam denying the petition for rehearing, printed in Appendix D, infra, is reported in 53 Haw. 177.

JURISDICTION

Rule 10 of the Rules of the Supreme Court of Hawaii, which is set forth in Appendix A, infra, provides for the entry of final judgment within 10 days of the filing of the opinion disposing of the cause, or, if a petition for rehearing is filed, for the entry of the judgment after the disposition of such petition.

In this cause, the Opinion of the appellate court was filed on September 9, 1971 (Appendix B, infra).

By order of the appellate court, counsel for petitioners was given an extension of time until

September 30, 1971, to file a petition for rehearing. Petition for Rehearing filed on September 30, 1971 (Appendix C, infra), was denied per curiam on October 5, 1971 (Appendix D, infra). Judgment on Appeal was filed and entered October 22, 1971, at 8:00 o'clock A. M. (Appendix E, infra).

This Court has held that the date of the opinion of a state court is not controlling; that the time shall run from the entry of the judgment or decree. Puget Sound Power & Light Co. v. King County, 264 U.S. 22, 24, 25.

Motion for Extension of Time to File Petition for Writ of Certiorari was received by the Office of the Clerk of this Court on January 10, 1972. An Order Extending Time to File Petition for Writ of Certiorari (A-733), extending the time to and including March 20, 1972, "without prejudice to the court's consideration as to

whether this application has been filed in time, was granted by Justice W. O. Douglas on January 19, 1972

The jurisdiction of this Court is invoked under Title 28, Section 1257(3). United States Code, with respect to title, rights, privileges, and immunities set up and claimed under the Constitution of the United States.

QUESTIONS PRESENTED

I.

Does a judgment of a state court of last resort violate the Fourteenth Amendment to the Constitution of the United States:

Where a written undertaking by its terms obligates sureties to provide such funds to construct proposed improvements as might be necessary in addition to mortgage funds borrowed by a corporate mortgagor;

Where the corporate mortgagor pays the

contractor from the mortgage loan proceeds the agreed contract price to construct the said improvements;

Where the contractor fails to pay subcontractors whose mechanics liens rank prior to the mortgage lien;

Where the subject premises are sold at foreclosure sale and the subcontractors' mechanics liens are discharged from the proceeds of the sale; and

Where the said judgment, on the basis of a conjectural conclusion, reverses the trial court and holds the sureties on the written undertaking liable to reimburse the purchaser of the premises for that portion of its purchase price which discharged said mechanics liens?

II.

Does a state court of last resort violate the Fourteenth Amendment to the Constitution of the

United States:

Where the decision of said court is in conflict with and in derogation of the applicable law upon which appellants relied in the trial court and on appeal;

Where said applicable law is applied unequally between the parties to the suit and between appellants and others in like circumstances in reported cases;

Where appellants on a petition for rehearing are denied an opportunity to present their case and be heard in the light of the conjectures and unprecedented conclusions employed to arrive at the subject decision; and

Whereby the appellants are held liable to the mortgagee on a written undertaking and in tort for the amount of a deficiency in a prior foreclosure action in which the appellants were party-defendants:

(a) Notwithstanding the fact that the appellants had not personally endorsed the mortgage note;

(b) Notwithstanding the fact that the mortgagee had waived the deficiency in the prior action;

(c) Notwithstanding the total lack of proof that the subject foreclosure and/or deficiency were proximately caused by the acts complained of; and

(d) Notwithstanding the proof offered that the fair and reasonable market value of the premises exceeds the aggregate amount of the deficiency and the price paid by the mortgagee for the premises at the foreclosure sale?

III.

Does a state court of last resort violate the Fourteenth Amendment to the Constitution of the United States:

Where a case involves the civil liability of corporate officers for the amount of damages alleged to have been suffered by a mortgagee because of the default of their principal on a mortgage note;

Where one of said officers is an attorney at law;

Where the decision of said court goes beyond the scope of the issues briefed and argued on appeal and censures said attorney for professional impropriety without notice or an opportunity to be heard in accordance with pertinent rules and law; and

Where the court also denies said attorney's petition to be heard in his defense against the charge?

CONSTITUTIONAL PROVISION, STATUTES AND RULES INVOLVED

The constitutional provision involved is the

Fourteenth Amendment to the Constitution of the United States. The statutes involved are § 1-1, § 1-6, § 602-13, and § 605-9, Hawaii Revised Statutes. The rules involved are Rule 5, Rule 10 and Rule 16 of the Rules of the Supreme Court of the State of Hawaii.

The constitutional provision, statutes, and rules involved are printed in Appendix A, infra.

STATEMENT OF THE CASE

General History

This cause originated on May 13, 1965, when State Savings & Loan Association, hereinafter called the "mortgagee," commenced a mortgage foreclosure suit (Civil No. 636) in the Circuit Court of the Fifth Circuit, State of Hawaii, hereinafter called the "Kauai court." Named as defendants are Kauaian Development Company, Inc., hereinafter called the "mortgagor," Better-Built Hawaii, Ltd., Blue Sea, Inc., Robert M.

Kimbrough, Ralph E. Corey, Wallace C. S. Young, 76 other named individuals, and John Doe and Mary Doe 1 to 100.

The complaint in Civil No. 636 alleges default on a promissory note for $857,000, signed by the mortgagor for a construction loan secured by a mortgage on real property located on the Island of Kauai, upon which the mortgagor did construct a condominium, hereinafter referred to as the "Seven Seas Hotel." The complaint also alleges that the mortgagor had not fully paid Better-Built Hawaii, Ltd., hereinafter called the "contractor," for the construction of the buildings on the premises. The complaint further alleges that the claim of other defendants to interests in the real property as owners of condominium units in the Seven Seas Hotel is without legal foundation.

Defendants Kimbrough, Corey and Young

had been president, vice-president, and secretary-treasurer, respectively, of the mortgagor when the note and mortgage was executed. They did not individually endorse the note. Defendant Corey was also the mortgagor's counsel.

In the course of trial of the Kauai case, the mortgagee introduced into evidence an undertaking signed by Defendants Kimbrough, Corey and Young, which personally guaranteed any moneys in addition to the mortgage loan which might be necessary to complete the Seven Seas Hotel as originally planned at the time of the loan.

The record in Civil No. 636 further shows that 46 days before the mortgagee filed an amended complaint in that case, its attorney was served with papers which clearly indicate that the actual building contract between the mortgagor

and the contractor for construction of the Seven Seas Hotel as originally planned was for $660,000. Copies of this working contract were receipted for by counsel for the mortgagee on October 11, 1965.

On November 15, 1965, counsel for the mortgagee served a letter notice on Defendants Kimbrough, Corey and Young, demanding payment under the aforesaid personal undertaking, of sums alleged to be due subcontractor defendants who had been joined in the foreclosure suit. The letter threatened suit if the demand were not met. Said individual defendants did not make the payments demanded.

The trial in the Kauai court commenced on January 16, 1966. Exhibits were introduced into evidence showing the mortgagor's balance sheet at the time of the mortgage loan, the loan settlement statement, the undertaking signed by

Defendants Kimbrough, Corey and Young, personally, and copies of the working contracts between the contractor and mortgagor.

Frequent exchanges between counsel resulted in a ruling by the Kauai court that there is no distinction between in rem and in personam jurisdiction, and that the court had in personam jurisdiction over all parties who had appeared.

The proof adduced showed that many condominium purhcasers had contracted to purchase units in the Seven Seas Hotel and had made substantial down payments before the mortgage was executed.

The Kauai court rendered its decision, holding that a condominium-horizontal regime had not been established, that the unit purchasers had no interest in the Seven Seas Hotel, and that the mortgage lien was junior only to prior liens of the unpaid subcontractor defendants. - The

property was ordered sold.

The mortgagee, the only bidder, purchased the property for $913,000 at the foreclosure sale. The subcontractors' prior liens aggregating $28,506.70 were paid by the mortgagor from proceeds of sale. On September 13, 1966, at a hearing to confirm the sale, all the costs of sale were settled by the court. A "deficiency" in the amount of $138,398.97 was waived by the mortgagee.

The deficiency was computed as follows:

Loan principal	$ 856,449.00
Accured interest on same	84,099.88
"Loan expenses"	81,358.48
Interest on same	984.91
Mechanic's liens	28,506.70
Receiver's salary	4,500.00
Commissioner's fee	15,500.00
Total:	$1,051,398.97
Purchase price	913,000.00
"Deficiency":	$ 138,398.97

The evidence indicated that the deficiency is comprised primarily of $119,364.79 loan dis-

count (included within principal) and accrued interest due the mortgagee, plus $18,200.00 advanced to the receiver pending the foreclosure suit. The mortgagee, as sole bidder, elected not to pay itself cash already advanced and interest income.

Thereafter, on September 15, 1966 (thirteen [13] days prior to the entry in the Kauai court of the order confirming sale of the premises to the mortgagee), the mortgagee commenced a second suit, Civil No. 19985 in the Circuit Court of the First Circuit, State of Hawaii, hereinafter referred to as the "Honolulu court," against Ralph E. Corey, Robert M. Kimbrough and Wallace C. S. Young as defendants.

The first count in Civil No. 19985, alleges that there "is due and owing" to the mortgagee from the defendants, under their personal undertaking, the amount of the two mechanics liens

($28,506.70) which, as shown above, had been paid to the subcontractors out of the proceeds of the foreclosure sale of the mortgagor's property.

The second count in Civil No. 19985, alleges that the defendants are liable to the mortgagee for the waived deficiency in the foreclosure suit ($138,398.97) "less such sums awarded under Count I of this complaint," on the ground that defendants had falsely represented to the mortgagor the actual amount of the construction contract between the mortgagor and the contractor.

After the order confirming foreclosure sale had been entered in the Kauai court, defendants timely moved in the Honolulu court to dismiss Civil No. 19985 on the ground of res judicata. The motion was denied.

The foreclosure judgment in Civil No. 636 was appealed from the Kauai court to the appellate court. The latter reversed the Kauai court's

decision as to the establishment of a horizontal regime in the Seven Seas Hotel and remanded the case to determine the status of the condominium owners vis-a-vis the mortgagee (50 Haw. 540).

Civil No. 19885 went to trial in the Honolulu court on September 30, 1969, after the mortgagee had resold the Seven Seas Hotel for $1,350,000 and accepted a new mortgage for more than $1,000,000. During the trial, Defendants Corey and Kimbrough made an offer of proof that the fair and reasonable market value of the premises, as completed by the mortgagor, far exceeded the purchase price paid by the mortgagee at the foreclosure sale, and was at least equal to the pre-construction appraised value upon which the mortgage loan had been based.

The only proof of value which the Honolulu court allowed to go to the jury (over objection) was the Order Confirming Sale in the Kauai

foreclosure case, indicating the "deficiency" of $138,398.97. The Honolulu court's ruling was based on the mortgagee's theory that said order in Civil No. 636 was res judicata as to damages. During the trial, Defendants Corey and Kimbrough had timely moved for a directed verdict on the ground that Civil No. 636 was res judicata as to the whole of Civil No. 19985, relying on Ellis v. Crockett, 51 Haw. 45 (February, 1969); and In Re Bishop Estate, 36 Haw. 403, 416 (1943) as cited in Ellis, and which in turn is bottomed on Southern Pacific R. Co. v. U.S., 168 U.S. 1.

The jury returned a verdict for the mortgagee and against all defendants on Count I for the amount paid by the mortgagor to subcontractor defendants in the Kauai case ($28,506.70) and against Defendants Corey and Kimbrough on Count II for the balance of the $138,398.97 waived deficiency in the Kauai foreclosure action.

In post-trial motions, defendants convinced the Honolulu court in Civil No. 19985: (1) of its error in submitting the construction of the personal undertaking to the jury; and (2) that the defendants owed nothing on Count I because: (a) the Seven Seas Hotel had been completed, including extras over and above the original plans and specifications; (b) the contractor had been paid in full by the mortgagor for the work according to the original plans and specifications; and (c) subcontractors whom the contractor had failed to pay were paid by the mortgagor from the proceeds of foreclosure sale. The court also recognized its error in refusing to allow the defendants to introduce evidence of the fair and reasonable market value of the security for the mortgage loan. Accordingly, the Honolulu court entered an order giving defendants judgment notwithstanding the verdict on Count I and ordered a new trial as

to damages on Count II.

All parties appealed to the appellate court. In light of the posture of the case at the time of taking the appeal, Defendants Corey and Kimbrough's primary assignment of error on appeal was:

> "1. Where the parties had previously litigated an action based on the same facts, and had a reasonable opportunity to litigate the issues presented in the second suit, is the second suit barred by the principle of res judicata?"
>
> Questions Presented for Decision, Opening Brief of Petitioners, p. 2, (filed in No. 5021, Supreme Court of the State of Hawaii, December 8, 1970).

The Opinion of the Appellate Court In Relation to Question I, Supra

The Opinion (Appendix B) states without equivocation that "The jury...rendered a verdict of $28,506.70, the amount of the mechanics' liens, on Count I under the written guarantee agreement against Defendants Kimbrough, Corey

and Young." The Opinion also acknowledges that the personal undertaking by the petitioners was "to provide all funds in excess of the mortgage loan necessary 'to complete this project as originally proposed in the mortgaging agreements'."

The record shows that the contractor had been paid in full by the mortgagor for all of the work on the hotel as originally planned at the time of the mortgage loan. The record shows that judgment was entered for these same subcontractors against the contractor in the Kauai case. Yet, the appellate court based petitioners' liability to the mortgagee on the following conjecture: "Had the contractor received the full $761,500.00 as was represented to State Savings, it is reasonable to assume that the mechanics' liens would have been paid."

This conjecture of the appellate court

implicitly holds: (a) the mortgagor should have paid the contractor $101,500 more than the price agreed between said parties; and (b) because it did not, the sureties are liable to the mortgagee on their written undertaking for the amount the mortgagor paid to the subcontractors to discharge mechanics liens.

Substitution of this unfounded conjecture for the written contracts of the parties injected a federal question into the case, raised by petitioners in their Petition for Rehearing (Appendix C, infra):

"I.

"The Court's Opinion Exceeds the Authority of the Court Inasmuch as by State Action it Impairs the Obligation of Contracts in Violation of Article I, Section 10, and the Fourteenth Amendment to the Constitution of the United States." (Citing Ellis v. Crockett, 51 Haw. 45, 54; Burbank v. Wood, 2 Haw. 591, 598, 604-5; City of Chicago v. Sheldon, 76 U.S. 50, pp. 55-56, 9 Wall. 50, 19 L.Ed. 177; Havemeyer v. Iowa County, 70 U.S. 294, 18 L. Ed. 38; State of Louisiana ex rel

Southern Bank v. Pilsbury, 105 U.S. 278, 26 L. Ed. 1090; and Union Bank of Richmond Va. v. Board of Com'rs. of Oxford N.C., 90 F. 7).

This federal question was decided per curiam by the appellate court, without opinion, in denying the Petition for Rehearing (53 Haw. 177, Appendix C).

The Opinion of the Appellate Court In Relation to Question II, Supra

The petitioners here were cross-appellees before the appellate court on the construction of the personal undertaking, the Honolulu court, as noted, having granted their motion for a directed verdict on Count I. At that point of time, the law of Hawaii was that the construction and legal effect of a contract is a question of law to be decided by the court. Reed and Martin, Inc. v. City and County, 50 Haw. 347 (1968), citing Mackenzie v. King, 30 Haw. 230 (1957).

In its Opinion, without considering the above

rule, the appellate court stated that in construing the contract, the "trial court substituted its judgment for the jury's," and reversed and reinstated the jury's verdict.

When the petitioners took their appeal, the settled law of Hawaii required that in actions for money damages based on deceit, the plaintiff must show by substantial evidence that the events complained of were the sole variant causing the financial loss which was suffered. Rainbow Island Productions Inc. v. Leong Agency, 44 Haw. 134; and Ellis v. Crockett, 51 Haw. 45, citing with approval Toho Bussan Karsha Ltd. v. American President Lines, Ltd., 265 F.2d 418). The absence of causal connection is completely ignored by the appellate court.

The Opinion does admit that "here we have a mortgagee who was defrauded not as to the value of the property...".

In the Opinion, the appellate court announces its refusal to be bound by any one rule for determining damages in the case of fraud. It states that it will use a "flexible rule... which would apply a different theory depending on the equities and proof available in each case."

Petitioners also depended upon the appellate court applying to the case at bar that portion of Ellis v. Crockett, supra, at 54, wherein it is held:

> "...As to Crockett, who it is admitted by the plaintiffs in their complaint was acting as agent for the Haradas throughout all of the transactions in this case, we hold he could not be sued independently if a suit against his principal is now barred..."

This principle of law was ignored by the appellate court.

The Opinion of the appellate court acknowledges that Ellis v. Crockett, supra, and In Re Bishop Estate, 36 Haw. 403, 416, correctly

state the doctrine of res judicata as applied in Hawaii. The Opinion also acknowledges that the case before it is "the result of a suit initiated... for a mortgage loan made by State Savings in favor of Kauaian Development Co., Inc."

The Opinion further acknowledges that the petitioners had argued that the Honolulu court in Civil No. 19985 erred "in failing to dismiss the complaint and in failing to direct a verdict" on the issue of res judicata and that they "further rely heavily on this court's decision" in Ellis v. Crockett, supra. The Opinion fails to note that petitioners relied on Ellis v. Crockett not only on appeal, but also during trial and in post-trial motions.

The Opinion in this cause goes on to note that counsel for the mortgagee, as well as counsel for petitioners, misunderstood and misconstrued "our decision in Ellis."

The Opinion further states: "... defendants' defense of res judicata must fall. We need not reach the question whether the parties and subject matter in the present case are the same as those in the prior mortgage foreclosure action. The fact that plaintiff's damages were not known at the time of the foreclosure action is determinative of the res judicata issue." (Emphasis supplied.)

These actions by the appellate court for the first time injected a second federal question into the case, raised by the petitioners in their Petition for Rehearing (Appendix C):

"II.

"The Court's Opinion is in Conflict with and in Derogation of Both the Common Law and the Decisional Law of Hawaii. The Opinion, Therefore, Abridges Appellants' Privileges and Immunities and Denies Them Due Process of Law and the Equal Protection of the Law as Set Forth in the Fourteenth Amendment of the United States Constitution.

"A. The Opinion and the Law of Contracts as it Previously Existed in this Jurisdiction." (Citing Reed & Martin, Inc. v. City and County, 50 Haw. 437; Mackenzie v. King, 30 Haw. 230.)

"B. The Opinion and the Law Relating to Fraud as it Previously Existed in this Jurisdiction." (Citing Rainbow Island Productions, Inc. v. Leong Agency, 44 Haw. 134; Ellis v. Crockett, 51 Haw. 45, 52.)

"C. The Opinion and the Law Relating to Agency." (Citing Ellis v. Crockett, supra, at 54.)

"D. The Opinion and the Law Relating to Res Judicata." (Citing In Re Bishop Estate, 36 Haw. 403, 416; Ellis v. Crockett, supra, at 53.)

"E. The Effect of the Opinion Upon Appellants' Constitutional Rights Under the Fourteenth Amendment to the Constitution of the United States." (Citing Brinkerhoff-Faris Co. v. Hill, 281 U.S. 673, 677-678, 680-681; Owenby v. Morgan, 256 U.S. 94, 111; Frank v. Mangrum, 237 U.S. 309, 326; Republic Pictures Corp. v. Kappler, 151 F.2d 543, 162 A.L.R. 228, affirmed 66 S.Ct. 523, 327 U.S. 757, 90 L.Ed. 991; Hosey v. Club Van Cortland, 299 F. Supp. 501; Shelley v. Kraemer, 334 U.S. 1, 68 S. Ct. 836, 92 L. Ed. 1161; Barrows v. Jackson, 346 U.S. 249, 73 S.Ct. 1031, 97 L. Ed. 1586; New York Times v. Sullivan,

376 U.S. 254, 84 S.Ct. 710, 11 L.Ed. 2d. 686.)

The federal question thus raised was decided in the appellate court without opinion, per curiam, in denying the Petition for Rehearing (53 Haw. 177, Appendix C).

The Opinion in Relation to Question III, Supra

Although the issue had never been submitted to the appellate court, and although no notice was given to Petitioner Corey, Part VIII of the Opinion, under the heading, "Attorney Corey's Conduct," states:

> "...We feel it pertinent to specifically admonish the perpetrators of such conduct. In many instances a fraudulent act will overshadow contemporaneous acts that would, taken alone, have been considered legitimate activity. In particular, this court questions the status of Defendant Corey in this case... an attorney, as an officer of the court, owes a special duty to the public, his client and the bar to keep his conduct beyond reproach, whether it be in or outside the scope of his status as an attorney. A lawyer should avoid even the appearance of professional

impropriety. Code of Professional Responsibility, Canon 9. The conduct of attorney Corey in this case raises serious questions of impropriety."

It was this action by the appellate court which for the first time injected a third federal question into the case. In the Petition for Rehearing, the question was presented to the appellate court as follows:

"III.

"The Court's Opinion, in Part VIII Thereof, Exceeds Its Jurisdiction, Goes Beyond the Scope of the Issues Submitted to it for Decision, and Violates Rule 16 of the Supreme Court and the Fourteenth Amendment to the Constitution of the United States." (Citing Rule 16 of the Rules of the Hawaii Supreme Court and In Re Trask, 46 Haw. 404.)

The appellate court decided this federal question without opinion, per curiam, in denying the Petition for Rehearing (53 Haw. 177, Appendix C).

REASONS FOR GRANTING THE WRIT

"No language is more worthy of frequent and thoughtful consideration than these words of Mr. Justice Mathews, speaking for this court, in Yick Wo v. Hopkins, 118 U.S. 356, 369. 'When we consider the nature and the theory of our institutions of government, the principles upon which they are supposed to rest, and review the history of their development, we are constrained to conclude that they do not mean to leave room for the play and action of purely personal and arbitrary power.' The first official action of this nation declared the foundation of government in these words: 'We hold these truths to be self-evident, that all men are created equal...' While such declarations of principle may not have the force of organic law, or be made the basis of judicial decision as to the limits of right and duty, and while in all cases reference must be had to the organic law of the nation for such limits, yet the latter is but the body and the letter of which the former is the thought and the spirit, and it is always safe to read the letter of the Constitution in the spirit of the Declaration of Independence. No duty rests more imperatively upon the courts than the enforcement of those constitutional provisions intended to secure that equality of rights which is the foundation of government." Gulf, Colorado & Santa Fe Railway Co. v. Ellis, 165 U.S. 150, 159. (Emphasis supplied.)

It is respectfully submitted that the very

foundation of American government in Hawaii is being destroyed by the personal and arbitrary exercise of power by the appellate court. The case at bar is merely illustrative. The vacillating law of Hawaii is applied capriciously and unequally against the disfavored.

Disregard of precedent has been the subject of frequent dissent among the members of the appellate court itself for at least six (6) years. See for example, dissents in Agata v. Kahului Dev. Co., 49 Haw. 378, 392-402 (1966); Iwamoto v. Hirata, 49 Haw. 514, 516-17 (1966); Re Land Title, State of Hawaii, 49 Haw. 537, 554-558 (1967); Young v. Price, 50 Haw. 430, 440-451 (1968); Almeida v. Correa, 51 Haw. 594, 606-608 (1970); In Re Estate of Chun O. Y. Hop, 52 Haw. 40, 48-50 (1970); In Re Female Minor Child, 52 Haw. 395, 403-409 (1970); Matsumoto v. Kaku, 52 Haw. 629, 634-637 (1971).

Without appellate guidance by this court, which has been absent in civil litigation since statehood in 1959, the five-judge appellate court of the youngest state of the Union regroups its majority, from time to time, to accomplish arbitrary results (dissent, City Council v. Fasi, 52 Haw. 3, 10-26 [1970]; dissent Nishi v. Hartwell, 52 Haw. 188, 201-211 [1970]) and to render decisions which members of the court itself contend are in disregard of fundamental rights safeguarded by the United States Constitution (dissent, Akizaki v. Fong, 51 Haw. 354, 361-366 [1969]; dissent, Hawaii Nat'l. Bank v. Okino, 51 Haw. 367, 370-374 [1969]).

Reasonable adherence by a state appellate court to stare decisis is a fundamental privilege of petitioners which is protected from abridgment by the Fourteenth Amendment to the United States Constitution. In order to upset stare

decisis in an appellate court governed by basic tenets of Anglo-American justice, a litigant has the burden of showing that a change in the law will cause no loss of pre-existing rights or work no demonstrable entrapment on adverse parties and others who have relied on previous determinations of the questions before the court. 1 B Moore's Fed. Prac., sec. 0.402, pp. 51 et seq., particularly sec. 0.402(3-1), pp. 151-157. This fundamental privilege is abridged a fortiori by disregard of precedent by an appellate court sua sponte.

In Barber v. Connolly, 113 U.S. 27, 31, this Court held:

> "The Fourteenth Amendment . . . undoubtedly intended . . . that equal protection and security should be given to all under like circumstances in the enjoyment of their personal and civil rights; . . . that they should have like access to the courts of the country for the protection of their persons and property, the prevention and redress of wrongs and the enforcement of contracts;

. . . that no greater burden should be laid upon one than are laid upon others in the same calling and condition . . ." (Emphasis supplied.)

As the statement of the case at bar clearly indicates, the appellate court disregarded the foregoing basic tenets of justice in determining the rights of petitioners. The decision abridges privileges and immunities and denies due process and equal protection of the laws guaranteed to petitioners by the Fourteenth Amendment to the United States Constitution. Statutes, rules and decisional law favoring petitioners has been disregarded; the same principles of law have been applied perversely in favor of the mortgagee and against petitioners; conjectural conclusion has been substituted for the written contracts of the parties.

One instance, among many, of capricious and discriminatory application of the law in the

case at bar relates to the doctrine of estoppel by judgment. This Court's classic rule of res judicata enunciated in Southern Pacific Railway Co. v. United States, 168 U.S. 1, 48-49, has been adopted as the law of Hawaii and repeatedly applied in prior decisions of the appellate court. See Makainai v. Lalakea, 29 Haw. 482, 488; Bertelemann v. Lucas, 35 Haw. 335, 341; Estate of Bernice P. Bishop, 36 Haw. 403, 417; and Glover v. L.K. Fong, 42 Haw. 560, 573.

This fundamental doctrine is in essence an immunity from relitigation which is protected from abridgment by a state court and which must be applied equally by a state court to all litigants in accordance with the guarantee of the Fourteenth Amendment to the United States Constitution.

The judgment in the Kauai foreclosure case is held by the appellate court not to bar the pro-

secution of the Honolulu suit, because the mortgagee could not determine the amount of its damages in the Kauai case. Yet, the deficiency waived in the Kauai case is held to be res judicata in the Honolulu case with the following incredible results: (a) the amount of deficiency waived by the mortgagee in the Kauai case is presumed, without proof, to be the irrefutable amount of the mortgagee's damages; and (b) the petitioners are prohibited from proving the fair and reasonable market value of the property purchased at the foreclosure sale by the mortgagee for $913,000, although it had been resold by the time of the Honolulu trial for $1,350,000. That is, the petitioners were prohibited from proving that the mortgagee suffered no damages.

In essence, according to the appellate court, a mortgagee who has been misled as to the cost, not the value, of improvements, is entitled to

receive more than payment in full under its contracts. This is directly contrary to the fundamental principles of law discussed by this Court in Gelfert v. National City Bank, 313 U.S., 221, 223.

By accepting the judgment of the Kauai case as irrefutable proof of damages, and by holding at the same time that said damages could not be determined in the Kauai case, the opinion of the appellate court is self-contradictory and also contradicts the prior opinion in Ellis v. Crockett, 51 Haw. 45. There, the same court holds that counterclaims for deceit related to mortgage transactions must be joined in the foreclosure suit because pecuniary damages are capable of being ascertained by calculation in the foreclosure action. Petitioners were thus denied equal protection of the laws accorded defendants in the Ellis case, guaranteed by the Fourteenth

Amendment to the United States Constitution.

One of the defendants in the Ellis case is William F. Crockett, an attorney, who had not been a party to the pertinent foreclosure case. Crockett was accorded civil immunity in the collateral Ellis suit to set aside the foreclosure judgment for the reason the suit was barred against his mortgagee principals by collateral estoppel. Yet, in this case, the appellate court holds petitioners who were parties in the first case (and a fortiori entitled to immunity) subject to civil liability on a surety contract and in tort for a paper deficiency of their principal, waived by the mortgagee in its first suit. Again, the appellate court abridged petitioners' immunities from relitigation, immunities firmly recognized and accorded to Crockett, et al. in the Ellis case, supra. It discriminated against petitioners in the application of pertinent law.

Rule 16 of the Rules of the Supreme Court of Hawaii, which provides procedures for disciplining attorneys, was adopted after the decision of the appellate court in In Re Bouslog-Sawyer, 41 Haw. 403 (reversed 360 U.S. 622). The appellate court itself has enunciated the principles that in disciplining attorneys, "the essential elements of notice and opportunity to be heard must be preserved" and that "civil liability is not determinable and has no effect in disciplinary proceedings." In Re Trask, 46 Haw. 404 (1963) at pp. 410, 415 and 414, respectively.

The censure of Petitioner Corey by the appellate court in its Opinion, without notice or hearing, on the basis of his civil liability, is a clear violation of his constitutional rights to due process of law and equal protection of laws accorded others in like circumstances, guaranteed by the Fourteenth Amendment to the United

States Consfitution.

The appellate court having refused petitioners due process of law on the federal questions raised at the first opportunity in the Petition for Rehearing the only forum left to the petitioners for the vindication of their federal constitutional rights is this Honorable Court. Cf. Missouri v. Gehner, 281 U.S. 313; Saunders v. Shaw, 244 U.S. 317.

CONCLUSION

> ". . . (M)axims of constitutional law are the monuments showing the victorious progress of the race in securing to men the blessings of civilization under the reign of just and equal laws, so that, in the famous language of the Massachusetts Bill of Rights, the government of the commonwealth 'may be the government of laws and not of men.' For, the very idea that one man may be compelled to hold his life, or the means of living, or any material right essential to the enjoyment of life, at the mere will of another, seems to be intolerable in any country where freedom prevails, as being the essence of slavery itself." Yick Wo v. Hopkins, supra, at 370.

The case before this Court raises federal questions so very fundamental and so very far-reaching in the administration of justice in civil actions under the American concept of human rights that an imperative duty rests upon this Court to grant certiorari. Gulf, Colorado & Santa Fe Railway Co. v. Ellis, supra, at 159.

The youngest state of the Union must be restored by this Court to a government of laws rather than a government of men. Yick Wo v. Hopkins, supra, at 370.

DATED: Honolulu, Hawaii, this ____ day of March, 1972.

Respectfully submitted:

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Honolulu, Hawaii 96813

APPENDIX A

CONSTITUTIONAL PROVISION, STATUTES AND RULES INVOLVED

Fourteenth Amendment to the Constitution of the United States, Section 1:

". . . No State shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law, nor deny to any person within its jurisdiction the equal protection of the laws."

U.S.C.A., Const., Amend. 14, Sec. 1, pp. 3-4.

Hawaii Revised Statutes

"§ 1-1 Common law of the State; exceptions. The common law of England, as ascertained by English and American decisions, is declared to be the common law of the State of Hawaii in all cases, except as otherwise expressly provided by the Constitution or laws of the United States, or by the laws of the State, or fixed by Hawaiian judicial precedent or established by Hawaiian usage; provided, that no person shall be subject to criminal proceedings except as provided by the written laws of the United States or of the State." [L 1892, c 57, § 5; am L 1903, c 32, § 2; RL 1925. § 1; RL 1935, § 1; RL 1945, § 1; RL 1955, § 1-1]"

"§ 1-6 Prohibitory law, effect. Whatever

is done in contravention of a prohibitory law is void, although the nullity be not formally directed. [CC 1859, § 8; RL 1925, § 8; RL 1935, § 8; RL 1945, § 7; RL 1955, § 1-9]"

"§ 602-13 Additional argument by counsel. Upon all questions arising under the exercise of the jurisdiction of the supreme court, when argument of counsel is desired or intended by the parties, or is requested by the court, the court may order the argument to be had. After the argument of any cause, or when the cause is submitted on briefs, if the court is of opinion that a certain point or legal proposition is involved which is material to the decision of the case and which has not been raised or argued by counsel on either side, the case shall not be decided on such point or proposition until counsel for both sides have had an opportunity of arguing the point or proposition before the court. [L 1892, c 57, § 57; RL 1925, § 2232; RL 1935, § 3601; RL 1945, § 9612; RL 1955, § 214-12]"

§ 605-9 Amenable for misconduct. The practitioners shall be summarily amenable to the courts of record and may be fined or imprisoned for satisfactory cause upon the complaint of any party aggrieved by their malpractice, or for nonpayment of moneys collected by them for private parties, or for any fraud, deceit, or other gross misconduct. [CC 1859, § 1066; am L 1921, c 81, § 2; RL 1925, § 2312; RL 1935, § 3611; RL 1945, § 9709; RL 1955, § 217-9]"

RULE 5. REHEARING

(a) *Time and Form.* A petition for rehearing may be presented only within 10 days after the filing of the opinion or ruling unless by special leave additional time is granted during such period by a justice. The petition shall briefly and distinctly state its grounds and shall include points and authorities relied on in support thereof and shall also be supported by a certificate of counsel to the effect that it is presented in good faith and not for delay.

(b) *Argument; Reply; Allowance.* No reply to a petition for rehearing will be received unless requested by the court or by a justice who concurred in the opinion or ruling and no petition for rehearing will be granted in the absence of such a request. There shall be no oral argument on a petition for rehearing.

RULE 10. JUDGMENT; MANDATE

Judgment; Mandate. In all cases a final judgment of this court pursuant to the opinion or ruling disposing of the cause before this court shall be prepared by the prevailing party and submitted to the clerk for entry and filing within 10 days. Upon presentation to the clerk, the clerk shall forthwith present the same to a justice for approval and upon approval, the same shall forthwith be entered and filed. Upon expiration of the time for filing a petition for rehearing, or if such petition has been timely filed, upon the disposition of such petition, a mandate shall issue in appeals as a matter of course informing the court below of the proceedings in this court and of any further required proceedings; provided that the mandate may issue at any time after the entry of final judgment on the order of the court. Upon motion for cause shown the mandate may be stayed or any mandate that has been issued may be recalled.

RULE 16. UNPROFESSIONAL CONDUCT AND UNAUTHORIZED PRACTICE OF LAW

(a) *Canons.* The Canons of Professional Ethics attached hereto as Exhibit A shall govern the conduct of the members of the Hawaii Bar.

(b) *Appointment of Commission.* The court shall appoint a commission of not less than 15 members of the Hawaii Bar as commissioners of this court in proceedings involving unprofessional conduct of members of the Hawaii Bar and unauthorized practice of law by any person, and shall designate the chairman thereof. The terms of office of the commissioners shall be designated by the court. They shall receive no compensation for their services but may be reimbursed for their traveling and other expenses incidental to performance of their duties.

(c) *Functions, Powers and Duties of Commissioners and Committee on Inquiry; Procedure.*

(1) The commission is empowered to inquire into and investigate charges of unprofessional conduct by members of the Hawaii Bar and unauthorized practice of law by any person and, upon the filing with the commission of a written complaint of such unprofessional conduct or unauthorized practice, to hear and determine the charges and report its findings and recommendations to this court.

(2) The commission shall adopt rules for its procedure and file them with the clerk of this court. Such rules shall become effective upon approval of this court.

(3) Any person, including the Attorney General and the Bar Association, may file a charge with the commission.

(4) Whenever a charge of unprofessional conduct or of unauthorized practice of law is received, the chairman of the commission, unless otherwise ordered by two-thirds of the commission, shall appoint a committe on inquiry consist-

ing of 3 or more members of the bar and refer the charge to it, if in his opinion the charge alleges a violation of the canons of professional ethics or unauthorized practice of law. The chairman of the committee on inquiry shall be a commissioner.

(5) The committee on inquiry shall conduct its investigation promptly. It shall have power to summon witnesses and to hear testimony, and may conduct its investigation in such manner as may be necessary and proper to obtain all pertinent information. The respondent, i.e., the person against whom a charge has been made, shall be notified in writing by the committee of such investigation and shall have a right to be heard.

(6) The committee on inquiry shall submit a written report of its findings and recommendations to the commission. If the committee recommends that no hearing be held on the charge of unprofessional conduct or unauthorized practice of law, and if the commission concurs with the recommendation, the matter shall be closed. The chairman shall thereupon notify the complainant and the respondent of the commission's action. If the commission does not concur with the recommendation of the committee, the commission may instruct its chairman to appoint a new committee on inquiry, and if two-thirds of the commission does not concur with the recommendation of the committee, the hearing of the charge may be held by the commission or the charge dismissed as the case may be.

(7) If the committee on inquiry recommends that a hearing be held on the charge of unprofessional conduct or unauthorized practice of law, it shall prepare and submit to the chairman of the commission a written complaint and a report in support thereof.

(8) A complaint shall be sufficiently clear and specific to inform the respondent of the alleged unprofessional conduct or unauthorized practice.

(9) Upon receipt of the complaint, the chairman of the commission shall cause a copy thereof to be served upon the respondent by personal service, together with a copy of the rules of the commission, if any. Personal service upon the respondent may be made by any person who is at least 20 years of age, including any commissioner. In the event that the respondent cannot be found within the State of Hawaii or has departed therefrom, service may be made by registered or certified mail if his address is known. If he cannot be found

within the state and if his address is not known, service may be made upon the clerk of this court. The respondent shall file with the commission a written answer to the complaint within 30 days after the date of service, which time may be extended by the chairman of the commission.

(10) If the respondent's answer involves any questions of law, a memorandum in support thereof shall be attached to the answer. A respondent waives all defenses and objections not presented in his answer, except the defenses (a) that the complaint fails to allege acts or omissions constituting unprofessional conduct or the unauthorized practice of law; (b) that the commission lacks jurisdiction of the subject matter. If the respondent fails to file an answer in the time allowed, he shall be in default.

(11) Nine members of the commission shall constitute a quorum for determining what action is to be taken upon the recommendation of a committee on inquiry and for determining whether a hearing on the charge should be had by the commission without prior reference to a committee on inquiry. At the hearing of the complaint by the commission, the committee on inquiry, or such other attorney or attorneys as are designated by the chairman of the commission, shall present evidence in support of the allegations of the complaint. Three members of the commission shall constitute a quorum for a hearing in each case coming before it. In the event of a recessed hearing, a quorum at each hearing after the first hearing shall be three commissioners who have attended all of the previous hearings. No commissioner who was a member of the committee on inquiry investigating the charges shall be qualified to hear the mattter. The hearing of such complaint by the commission shall be completely and accurately recorded.

(12) The proceedings under this rule shall not be public but shall be private and confidential unless the respondent shall in writing request otherwise. The record shall not be made public unless and until a report recommending discipline or recommending that a judgment be issued is filed with the court and the court has acted thereon.

(13) Committees on inquiry, by their chairmen, and commissioners hearing charges may administer oaths and affirmations and compel by subpoena the attendance of witnesses and the production of pertinent books, papers and documents. Writs of subpoena shall be issued in blank by the clerk of this court upon application by any commissioner or the respondent. A witness shall be paid mileage and witness fees as pro-

vided by the law of this state in civil cases. Failure to obey any such subpoena or refusal without lawful grounds of any person to be sworn to testify or to answer any proper question shall constitute contempt of this court. Part V of the Hawaii Rules of Civil Procedure, relating to depositions and discovery, shall apply to proceedings before the commission instituted pursuant to this rule.

(14) To warrant a finding of unprofessional conduct or of unauthorized practice of law, the charge must be established by clear and convincing evidence.

(15) After the hearing, if the commission recommends discipline by the court in cases involving unprofessional conduct, or recommends a judgment of the court in cases involving unauthorized practice of law, it shall file a written report of its findings and recommendations with the court. Thereupon the matter shall be docketed in the name of the respondent. The committee on inquiry, Attorney General, or such other attorney or attorneys as are designated by the chairman of the commission, shall act as attorneys for the commission. After the filing of such report a copy thereof shall be served on the respondent as hereinbefore provided for the service of the complaint.

(16) The respondent may file exceptions to the report within 20 days from the date of service of a copy thereof or within an additional period not to exceed 20 days granted by the court for good cause shown. Unless such exceptions are predicated solely on the report, the respondent, within 10 days after the filing of such exceptions, shall file with the commission a designation of such parts of the record as he deems necessary to enable the court to pass on such exceptions, and within 10 days thereafter the attorney for the commission may file a designation of any additional parts of the record deemed necessary to enable the court ot pass on such exceptions. Thereupon the commission shall promptly certify to the court the parts of the record so designated and furnish a copy thereof to the attorney for the commission and a copy thereof to the respondent.

(17) Within 60 days after the filing of the certified record, or after the filing of exceptions if no part of the record is designated by the respondent, the respondent shall file an opening brief pursuant to the rule governing civil appeals and other briefs shall be filed as therein provided.

(18) If the respondent fails to file exceptions within the time permitted by the rule, upon motion made by the attorney for the commission the court may enter an order giving effect to the recommendations contained in the report. The court shall adopt the findings of the commission unless upon a consideration of the entire record it is of the opinion that such findings are not supported by clear and convincing evidence.

(d) *Limitations.* The jurisdiction of this court and the other courts of the State of Hawaii to grant appropriate relief in causes involving unprofessional conduct or unauthorized practice of law shall not be deemed to be limited, restricted or abrogated by anything contained in this rule.

APPENDIX B

OPINION BELOW

No. 5021

APPEAL FROM FIRST CIRCUIT COURT
HONORABLE THOMAS S. OGATA, JUDGE

September 9, 1971

RICHARDSON, C.J., ABE AND KOBAYASHI, JJ., AND CIRCUIT JUDGE HAWKINS IN PLACE OF MARUMOTO, J., DISQUALIFIED, AND CIRCUIT JUDGE M. DOI IN PLACE OF LEVINSON, J., DISQUALIFIED

JUDGMENT — *res judicata.*

The doctrine of res judicata precludes the relitigation, not only of the issues which were actually litigated in the first action, but also of all grounds of claim and defense which might have been properly litigated in the first action but were not litigated or decided.

SAME — *collateral estoppel — claims barred.*

Collateral estoppel is an aspect of res judicata which precludes the relitigation of a fact or issue which was previously determined in a prior suit on a different claim between the same parties or their privies.

APPEAL AND ERROR — *jury determination — finality of findings.*

A jury finding on a factual issue supported by substantial evidence may not be set aside by the court.

TRIAL — *sufficiency of evidence — directed verdict.*

On a motion for a directed verdict, the evidence and the inferences which

may be fairly drawn therefrom must be considered in the light most favorable to the party against whom the motion is directed, and if the evidence and the inferences so viewed are of such character that reasonable persons in the exercise of fair and impartial judgment may reach different conclusions upon the crucial issue, then the motion should be denied and the issue submitted to the jury.

OPINION OF THE COURT BY KOBAYASHI, J.

This appeal is the result of a suit initiated by State Savings & Loan Association (hereinafter State Savings or plaintiff) against Robert M. Kimbrough (hereinafter Kimbrough), Ralph E. Corey (hereinafter Corey) and Wallace C. S. Young (hereinafter Young) (hereinafter collectively called defendants) for a mortgage loan made by State Savings in favor of Kauaian Development Company, Inc. (hereinafter Kauaian Development).

In Count I of the complaint, State Savings alleged that though Kimbrough, Corey and Young were personally obligated through a written undertaking to discharge certain mechanic's liens of Kauai Commercial Company, Limited (hereinafter Kauai Commercial), they failed to discharge said liens. In Count II, State Savings alleged fraud, encompassing representations made to State Savings by Kimbrough, Corey and Young in their procurement of a mortgage loan from State Savings for Kauaian Development.

Young instituted a cross-claim against Kimbrough and Corey, claiming that if any judgment is obtained against Young then Kimbrough and Corey be held liable for the full amount of the judgment.

The following jury verdicts are pertinent in this appeal:

1. On Count I, in favor of State Savings and against Kimbrough, Corey and Young;

2. In regard to Young's cross-claim in Count I, in favor of Kimbrough and Corey and against Young;

3. On Count II, in favor of State Savings and against Kimbrough and Corey, but not against Young.

Judgment was accordingly entered.

Subsequently the judgment above was set aside and the following judgment was entered which:

1. As to Count I, entered a judgment notwithstanding the verdict in favor of Kimbrough, Corey and Young;

2. As to Count II, affirmed the judgment of liability for fraud against Kimbrough and Corey but ordered a new trial solely on the issue of damages for fraud.

This appeal comes from the foregoing, as follows:

1. By State Savings from the final judgment notwithstanding the verdict on Count I and by State Savings in the form of an interlocutory appeal with regard to the granting of a new trial on the issue of damages under Count II;

2. By Kimbrough and Corey from the judgment affirming the fraud in Count II;

3. By Young from the judgment in favor of Kimbrough and Corey and against Young in his cross-claim in Count I.

I. FACTS

Kimbrough, Corey and Young were the principal officers and stockholders of Kauaian Development. Kimbrough and Corey were president and vice president-general counsel, respectively. At the inception of the dealings between the parties to this case, Kimbrough and Corey met with a representative of State Savings to work out the figures for the proposed loan. After many negotiations State Savings agreed to a mortgage loan of 65% of the appraised value of the land and construction costs.

Pursuant to this arrangement Corey submitted to State Savings a financial statement of a proposed hotel condominium which included a specific cost for construction in the amount of $761,500.00. This statement was signed by Corey as vice president of Kauaian Development. Kauaian Development already had a contract in existence with the contractor, Better Built Hawaii, Ltd. (hereinafter Better Built), for construction of the hotel condominium at a cost price of $600,000.00, less than that represented to State Savings. This previously made contract between Kauaian De-

velopment and Better Built was evidenced by a letter agreement signed by the president of Better Built and Kimbrough for Kauaian Development. The essence of this agreement provided that the higher construction cost figure given to State Savings was to be considered as between Better Built and Kauaian Development "for financing purposes only", and was not to modify their existing agreement at the lower cost figure.

Subsequently State Savings was furnished, at its request, a copy of what was purported to be the contract between Better Built and Kauaian Development. It was signed by the president of Better Built and by Kimbrough as president of Kauaian Development. It included the same higher construction cost figure previously submitted by Corey to State Savings.

The closing documents for the mortgage loan in the amount of $857,000.00, based in part upon the higher construction figure represented to State Savings, were signed and formally executed. During the process of preparing for the closing it became apparent that the total amount of the loan as proposed would not cover the total expected cost to finish the construction, which had already started. In order to assure that this deficiency would be met and that there would be sufficient funds to complete the construction, State Savings accepted Kimbrough's, Corey's and Young's personal guarantee that any such funds would be paid by them. In part this agreement reads as follows:

> This statement shows an additional amount to be received from the development company to provide for all loan disbursements in the amount of $46,485.50. Although the loan is made to the corporation, of which the undersigned are officers, it is hereby agreed that the undersigned officers pledge their personal liability for the above amount of money, or any other amount of money that may be necessary, to complete the proposed Hyatt House development on the island of Kauai. We guaranty

that this money will be available for the payment of expenses to complete this project as originally proposed in the mortgaging agreements.

This agreement was signed by Kimbrough, Corey and Young.

Under the mortgage loan arrangement, construction progress payments were to be paid to Kauaian Development rather than Better Built as requested by defendants. Eventually all the progress payments under the loan were made, the construction was completed and the hotel condominium started its operation.

Repayment of the mortgage loan became delinquent and State Savings instituted, in the fifth circuit court in Civil No. 636, a mortgage foreclosure proceeding against Kauaian Development and the individual unit owners. The court in said case ordered that the property be foreclosed and sold to pay the balance due on the mortgage and two mechanic's liens which were adjudged to have priority over the mortgage. The mechanic's liens totalled $28,506.70. The court ordered the property sold at public auction at an upset price of $1,051,200.80. This amount included the balance due on the mortgage, the mechanic's liens and the foreclosure expenses. There were no bidders at the upset price sale.

The court determined that the property should be sold with no upset price. At the second sale State Savings itself purchased the property for $913,000.00. This left a difference of $138,200.80 between the purchase price and the upset price.

The jury in the instant case, which is now on appeal, rendered a verdict of $28,506.70, the amount of the mechanic's liens, on Count I under the written guarantee agreement against defendants Kimbrough, Corey and Young. Under Count II for fraud, a verdict of $109,694.10 was rendered against defendants Kimbrough and Corey. These two fig-

ures total the $138,200.80 difference between the upset price and the purchase price.

II. ISSUES

The questions before us that we consider necessary to answer are: (1) Whether the defense of res judicata is applicable to the present case; (2) Did the trial court err in setting aside the judgment on Count I and granting a judgment notwithstanding the verdict? (3) Did the trial court err when it failed to grant a judgment notwithstanding the verdict on Count II? (4) Did the trial court err in granting a new trial on the issue of damages for Count II? (5) Did the trial court err in denying defendant Young's motion for judgment notwithstanding the verdict or in the alternative for a new trial on his cross-claim against defendants Kimbrough and Corey with respect to Count I?

III. RES JUDICATA

The essence of defendants' arguments on this issue is that the final judgment in the prior mortgage foreclosure action should act as a bar to the present action under the doctrine of res judicata. Their primary contention is that the lower court erred in failing to dismiss the complaint and in failing to direct a verdict on this issue.

This court in *Ellis v. Crockett*, 51 Haw. 45 (1969), at page 55, set forth the doctrine of res judicata as follows:

> The doctrine of *res judicata* basically provides that "[t]he judgment of a court of competent jurisdiction is a bar to a new action in any court between the same parties or their privies concerning the same subject matter, and precludes the relitigation, not only of the issues which were actually litigated in the first action, but also of all grounds of claim and defense which might have been properly litigated in the first action but were not litigated or decided." *In re Bishop Estate*, 36 Haw. 403, 416 (1943).

It is clear from the *Ellis* case that the doctrine of res judi-

cata primarily turns on those matters which might have been "properly litigated" in the first action. As such the question presented is whether the present claim should have been included in the mortgage foreclosure suit.

There was presented at trial conflicting evidence as to what point in time State Savings learned of the double contracting. Testimony was given indicating that State Savings' representative may have learned about the lower construction contract during his counsel's preparation for the foreclosure action. It is defendants' contention that even if State Savings were ignorant of the fact supporting the fraud claim in Count II, this ignorance was due to State Savings' own negligence. Defendants maintain that State Savings either was or should have been fully cognizant of the double contracting prior to the commencement of the foreclosure action. They cite numerous authorities providing that if a party's ignorance of a claim is the product of his own negligence in that he should have been aware of facts supporting it, then he is barred by res judicata from asserting his claim in a second action. *Guettel v. U.S.*, 95 F.2d 229, 232, *cert. denied*, 305 U.S. 603.

Defendants further rely heavily on this court's decision in the *Ellis* case, *supra*. They contend that our decision in that case "has already decided that in a mortgage foreclosure action, an action for fraud allegedly founded on the mortgage transaction *must* be litigated, or the right of action is lost". This construction by defendants of our holding in that case as a precedent for the decision in this case is grossly inaccurate. Initially it is evident that the factual situation in the instant case makes the *Ellis* case readily distinguishable on its face. In *Ellis* we held that the subsequent claim should have been raised as a compulsory counterclaim in the previous action. But of even more significance is the fact that the present defendants have misstated our use of the doctrine of res judicata as set forth in the *Ellis* case. It is apparent from State Savings' brief that they too have misconstrued our decision in *Ellis*.

In the *Ellis* holding, this court specifically differentiated between the doctrines of res judicata and collateral estoppel. As quoted from the *Ellis* case earlier in this opinion, res judicata "precludes the relitigation, not only of the issues which were actually litigated in the first action, but also of all grounds of claim and defense which might have been properly litigated in the first action but were not litigated or decided". Quoting further from the *Ellis* case, page 55, "Collateral estoppel is an aspect of res judicata which precludes the relitigation of a fact or issue which was previously determined in a prior suit on a different claim between the same parties or their privies. *Yuen v. London Guarantee and Accident Co.*, 40 Haw. 213, 223 (1953); *Henderson v. Pence*, 50 Haw. 162, 163, 434 P.2d 309, 310 (1967)." Then we went on to say that it was collateral estoppel that was applicable in that case, not res judicata generally. "The claim before us today is clearly not the same claim for which relief was sought in the prior foreclosure case. . . . Also the legal consequences of a successful completion of the litigation would be different. Since this is a different claim, the only way the present plaintiff may be barred is through collateral estoppel. Applying the above described rules, the present plaintiffs are barred as to any claim they may assert against any of the defendants with respect to issues actually litigated between the persons who were parties in the foreclosure suit." *Ellis*, *supra* at 56-57. As such it is evident that collateral estoppel, not res judicata, was applied in the *Ellis* case, contrary to defendants' assertion.

Applying the above principles to the present case, defendants' defense of res judicata must fail. We need not reach the question whether the parties and subject matter in the present case are the same as those in the prior mortgage foreclosure action. The fact that plaintiff's damages were not known at the time of the mortgage foreclosure action is determinative of the res judicata issue. The present claim could not have been "properly litigated", as that term is used in the *Ellis* case, at the time of the mortgage foreclosure

action because at that time it was not known whether State Savings would suffer any damages from defendants' default on the mortgage. The damages were capable of being determined only after the mortgage was foreclosed and the property sold at a loss to the mortgagee, State Savings. Had the property been foreclosed at a gain sufficient to cover the damages under both Counts I and II, State Savings would not have had a valid claim. As such the defense of res judicata is not applicable to the facts in the present case. The fact that State Savings may have known about the fraud when it brought the mortgage foreclosure action is not sufficient. It did not know the extent of its damages or even whether it would have any at that time.

IV. JUDGMENT NOTWITHSTANDING THE VERDICT ON COUNT I

The jury returned a verdict in favor of State Savings on Count I against defendants Kimbrough, Corey and Young for $28,506.70, an amount equal to the unpaid mechanic's liens. The trial court granted judgment to defendants notwithstanding the jury verdict. Count I relates to the written undertaking, a guarantee agreement, signed by all three defendants.

As to Count I, the jury was instructed in part as follows: "In construing the written undertaking . . . you may consider . . . all testimony adduced with regard to what the parties intended at the time the document was prepared and executed. . . . [I]f you find that the completion of the project as originally proposed in the mortgaging agreements was paid for in full, then you must return a verdict in favor of the defendants."

The trial court in granting judgment notwithstanding the verdict gave the following reasoning in part: "And the reason for granting the motion for a judgment notwithstanding the verdict is, as the court indicated previously, that the evidence shows affirmatively that all payments due [to the contractor from the developers] . . . had been made on the contract as amended, and we are talking about the $600,000

contract . . . and under the contract as amended, the contractor was paid in full."

The $600,000.00 construction contract to which the trial court referred is the lower costing contract brought out in the statement of facts concerning the double contracting by defendants. As stated previously, defendants represented to State Savings that the construction contract was for a higher figure, $761,500.00. Under the written guarantee agreement, defendants agreed to provide all funds in excess of the mortgage loan necessary "to complete this project as originally proposed in the mortgaging agreements". The trial court, using the $600,000.00 contract, found that the contractor had been paid in full and gave judgment notwithstanding the verdict. In doing so, the trial court substituted its judgment for the jury's and found that the $600,000.00 contract was part of the mortgaging agreements rather than the $761,500.00 contract that had been submitted to State Savings.

The amount of the verdict under Count I, $28,506.70, comes well within the balance between the $761,500.00 contract and the amount actually paid the contractor. Had the contractor received the full $761,500.00, as was represented to State Savings, it is reasonable to assume that the mechanic's liens would have been paid. Since it was the $761,500.00 contract that was represented to State Savings as being the true contract between developer and contractor, it was correct for the jury to take it into consideration under Count I. As such the trial court committed error in relying on the lesser contract in overturning the jury.

The jury had the written guarantee agreement, a copy of what was represented to State Savings as the construction contract, and testimony from all parties involved upon which to base its verdict. It has long been the law in this jurisdiction that verdicts based on conflicting evidence will not be set aside where there is substantial evidence to support a jury's findings. *Ashford v. Thos. Cook & Son, Ltd.*, 52 Haw. 113, 123, 471 P.2d 530, 536 (1970); *Fernandez v. Hao*,

43 Haw. 335, 336 (1959); *Louis v. Victor*, 27 Haw. 262, 263 (1923). There was sufficient evidence for the jury to find for State Savings on Count I. As such the judgment granted by the trial court should be reversed as to Count I and the jury verdict reinstated.

V. THE JURY VERDICT ON COUNT II

When the jury returned its verdict on Count II, defendants Kimbrough and Corey filed a motion for judgment notwithstanding the verdict or in the alternative for a new trial. Listed among the grounds were "that the evidence adduced by the plaintiff failed to support a claim upon which relief could be had" and that "the verdict of th jury was against the weight of the evidence". The trial court denied the motion. This court finds defendants' grounds without merit and affirms the action of the trial court.

The jury was properly instructed by the trial court as to all the elements that must be proven by State Savings in an action for fraud. The jury verdict is fully supported by all the documents that were entered in evidence, including those that constituted the mortgaging agreements. In addition there is the testimony of all parties involved, including the individual defendants and the president of the contracting company. More specifically, the jury had the testimony of State Savings' representative to the effect that among other things he relied on the $761,500.00 construction contract as represented to him in making the mortgage loan. There was substantial evidence to support the jury verdict. The trial court is thus affirmed in denying defendants' motion for the same reasons cited in upholding the jury verdict on Count I.

VI. DAMAGES ON COUNT II

The question here presented is as follows: Did the trial court err in granting defendants Kimbrough's and Corey's motion for a new trial as to damages on Count II?

The trial court in granting the motion, believed that it

erred in failing to allow defendants to introduce evidence as to a subsequent resale of the property by State Savings to a third party after State Savings had purchased the property at the second foreclosure sale.

The facts show that State Savings' damages on Count II were determined in the following manner: The court, in the previous mortgage foreclosure suit, originally ordered the property sold at public auction at an upset price of $1,051,200.80. This amount included the balance due on the mortgage, the mechanic's liens and the foreclosure expenses. At the second sale State Savings bought the property for $913,000.00. This left a loss of $138,200.80 on the sale. State Savings, in the present case on appeal, recovered the amount of the mechanic's liens, $28,506.70, on Count I. The balance, $109,694.10, was the amount returned by the jury on Count II.

It is not disputed that the mortgage foreclosure sale itself was conducted properly under the law. The sale was conducted and confirmed by the court in that action. As such this court considers it irrelevant to the action at hand that State Savings itself was the buyer of the property at that sale. Concerning the issue of damages in the present case, the only fact resulting from the sale that is relevant is the amount of the proceeds from the foreclosure sale. State Savings' damages would certainly not be computed any differently had it not resold the property or had another party bought the property at the foreclosure sale. Therefore, the fact that State Savings subsequently sold the property has no bearing on this case and the facts surrounding this sale were properly disallowed.

State Savings confuses this issue by going into a lengthy discussion in its brief on the difference between the "benefit of the bargain" theory of computing damages for fraud and the "out of pocket" theory. It would have the court at this time adopt one theory or the other for this jurisdiction. Under the "benefit of the bargain" rule, State Savings would be entitled to have its mortgage note paid in full, that

is what it bargained for. Using the "out of pocket" theory, the less is the deficiency under the mortgage note. In both instances the expenses of the foreclosure sale that were a portion of the upset price would be included in the damages computation. It is conceded by State Savings that in this case it makes no difference which theory is used, the monetary damages are the same.

The "benefit of the bargain" rule, as used in this context, is ordinarily applicable in those situations where the buyer of property is defrauded as to its value at the time of sale. *Louis Steinbaum Real Estate Co. v. Maltz*, 247 S.W.2d 652 (Mo. 1952). In such a situation the price of a subsequent resale is admitted to show the actual value of the property when fraudulently sold. It is evident that that situation is entirely different from the case at hand. Here we have a mortgagee who was defrauded not as to the value of the property but as to the value of a construction contract upon which the amount of the loan was determined. As such a sale of the property by anyone subsequent to the foreclosure sale when the damages were determined is completely irrelevant to the damage issue.

Some jurisdictions have taken the view that no strict rule should be adopted and have held that either the "benefit of the bargain" or the "out of pocket" rule should be applied depending on the rule most applicable to the case at hand. In such situations a flexible rule is used which would apply a different theory depending on the equities and proof available in each case. *Rice v. Price*, 340 Mass. 502, 164 N.E.2d 891 (1960); *Hunt v. Sherrill*, 195 Miss. 688, 15 So. 2d 426 (1943); *Zeliff v. Sabatino*, 15 N.J. 70, 104 A.2d 54 (1954); *Gnash v. Saari*, 44 Wash. 2d 312, 267 P.2d 671 (1954). We are of the opinion that this court should not bind itself to any one rule at this time.

VII. CROSSCLAIM ON COUNT I

Did the trial court err in denying Young's motion for judgment notwithstanding the verdict or in the alternative

for a new trial on his cross-claim against Kimbrough and Corey with respect to Count I?

Young's cross-claim essentially states that if any judgment is obtained against him then the other defendants are liable to him for the full amount thereof since they handled all transactions with State Savings. The trial court gave the jury Young's requested instruction on Count I. It provided that if the jury found that Young executed the written undertaking based solely upon misrepresentations of either of the other defendants then the jury should find in favor of Young.

We have stated that verdicts based on conflicting evidence will not be set aside where there is substantial evidence to support the jury's findings. More particularly, in relation to directed verdicts we have held in *Chambers v. City and County of Honolulu*, 18 Haw. 539, 541, 406 P.2d 380, 382 (1965), quoting from *Young v. Price*, 47 Haw. 309, 313, 388 P.2d 203, 206 (1963): *Young v. Price*, 18 Haw. 22, 24, 395 P.2d 365, 367 (1964), that: "[O]n motions for a directed verdict, the evidence and the inferences which may be fairly drawn from the evidence must be considered in the light most favorable to the party against whom the motion is directed and if the evidence and inferences viewed in that manner are of such character that reasonable persons in the exercise of fair and impartial judgment may reach different conclusions upon the crucial issue, then the motion should be denied and the issue should be submitted to the jury."

The facts were in dispute in this case as to the relationships among the defendants. Young testified that he did not know what was going on in reference to the mortgage negotiations and that the only reason he signed the written undertaking was because Kimbrough and Corey requested him to do so. Kimbrough and Corey testified, on the other hand, that Young was a full participant for the Kauaian Development during the procurement of the mortgage. In addition Young was a major stockholder and officer of Ka-

uaian Development at the time he signed the written undertaking. When the time came to close the loan, Kimbrough was hospitalized and Young played an integral part in the mechanics of that process. It is evident that, just as there was sufficient evidence for the jury to find in favor of Young on the fraud in Count II, there was sufficient evidence to find him liable on the written undertaking in Count I.

VIII. ATTORNEY COREY'S CONDUCT

A substantial portion of the substance of this case involved an activity that could be considered fraudulent. Defendants herein misrepresented to a prospective mortgagee the true nature of the contract between developer and contractor upon which the mortgagee relied in determining the amount of the loan. It was suggested by defendants' counsel in oral argument that this type of activity, double contracting by developer between the contractor and the prospective mortgagee, is a commonplace procedure for the trade in this type of situation. No evidence of such practices having been accepted in the business community of Hawaii or any other jurisdiction was presented to this court. We feel it pertinent to specifically admonish the perpetrators of such conduct. In many instances a fraudulent act will overshadow contemporaneous acts that would, taken alone, have been considered legitimate activity.

In particular, this court questions the status of defendant Corey in this case. Young testified that he relied upon Corey as his attorney during the negotiation for the mortgage. We do not presume to characterize the relationship between Corey and Young in this transaction as attorney-client. And yet an attorney, as an officer of the court, owes a special duty to the public, his client and the bar to keep his conduct beyond reproach, whether it be in or outside the scope of his status as an attorney. A lawyer should avoid even the appearance of professional impropriety. Code of Professional

Responsibility, Canon 9. The conduct of attorney Corey in this case raises serious questions of impropriety.

IX. CONCLUSION

The verdict of the jury as to all counts is reinstated and the order of the trial court for a new trial on the issue of damages is reversed. Remanded for entry of judgment consistent with this opinion.

James S. Campbell (*Peter Chi-Ping Char* with him on the briefs, *Cades, Schutte, Fleming & Wright* of counsel) for plaintiff-appellee, cross-appellant State Savings & Loan Association.

Helen B. Ryan (*Ryan & Ryan* of counsel) for defendants-appellants, cross-appellees Robert M. Kimbrough and Ralph E. Corey.

Asa M. Akinaka (*Padgett, Greeley, Marumoto & Akinaka* of counsel) for defendant-appellant, cross-appellee Wallace C. S. Young.

APPENDIX C

PETITION FOR REHEARING AND MOTION TO AMEND OPINION BY STRIKING

TO THE HONORABLE CHIEF JUSTICE AND TO THE HONORABLE ASSOCIATE JUSTICES OF THE SUPREME COURT OF THE STATE OF HAWAII:

Appellants RALPH E. COREY and ROBERT M. KIMBROUGH respectfully request the Court to reconsider its Opinion entered in the above entitled cause on September 9, 1971 and to grant Appellants a rehearing in the above entitled cause under Rule 5(a) of the Rules of the Supreme Court of the State of Hawaii. The grounds for said request are as follows:

I.

The Court's Opinion Exceeds the Authority of the Court Inasmuch as by State Action it Impairs the Obligation of Contracts in Violation of Article I, Section 10, and the Fourteenth Amendment to the Constitution of the United States.

The Record below, and those portions of the

Record in Fifth Circuit, Civil No. 636, which were filed as a supplemental record on this appeal, show the following uncontroverted facts:

State Savings and Loan, as mortgagee, entered into a mortgage contract with Kauaian Development Company, Inc., securing a note in the principal sum of $857,000.00.

Appellants Kimbrough and Corey did not personally endorse the mortgage note.

State Savings and Loan disbursed only $822.720 to Kauaian Development Company, Inc.; State Savings and Loan retained the balance, $34,280.00 as an initial service fee (Plaintiff's Exhibit 10).

The corporate mortgagor contracted with Better Built Hawaii, Ltd. to construct improvements according to plans and specifications which were given an estimated value of $761,500 for financing purposes; the contract submitted to

State Savings and Loan was, in the alternative to that face amount, a cost-plus contract. The estimated net loan requirement submitted to the mortgagee for Better Built Hawaii contract cost was $701,500.

The documents showed the need for an additional $46,485.50 to complete the proposed development according to the original plans and specifications.

Appellants Kimbrough, Corey and Young, by a written undertaking drafted by State Savings and Loan, guaranteed this $46,485.50, or any other amount necessary to complete construction according to said original plans and specifications.

The valuation price of $761,500, or costs plus 7%, was the subject of a private contractual agreement between Better Built Hawaii, Ltd. and Kauaian Development Co., Inc. There is no

contract or other evidence indicating a legal obligation upon Kauaian Development Company to reveal the privately adjusted contract price to State Savings and Loan. (Cf. Ellis vs. Crockett, 51 Haw. 45, p. 54).

The premises valued at $761,500 were completed by Better Built Hawaii, Ltd. in accordance with the plans and specifications submitted to the lending institution for an adjusted cost of $600,000, plus three apartments in the development valued at $60,000. See testimony of Emil Offer, President of Better Built Hawaii, Ltd. (TR. 587).

Kauaian Development Company, Inc. paid its contract price of $660,000 to Better Built Hawaii.

Better Built Hawaii defaulted in its own contractual duty to pay over to two of its subcontractors the amount of their liens; that is $28,506.70,

including court costs and attorneys' fees.

Emil Offer's testimony was that the liens in the sum of $28,506.70 were for extras added to the project in addition to the plans and specifications which accompanied the mortgage application (TR. 587 and following).

At no time did Appellants Kimbrough and Corey enter into a contract with State Savings and Loan that they would guarantee anything other than the construction costs as the project was originally planned.

This Court misunderstands the evidence when it tries to demonstrate mathematically that the liens would not have occurred had the contractor received the full $761,500 (or cost plus 7%) for the project as originally proposed in the mortgaging instruments. According to Mr. Offer's testimony, Better Built Hawaii would not have paid these liens because they were for

extras not included in the original contract and were in dispute between Better Built Hawaii and Kauaian Development Company.

Whether or not the $28,506.70 mechanic's liens were for extras or for elements of the original contract is immaterial in the final analysis, for the reason that the amount was fully paid from the proceeds of foreclosure sale. Thus, the Opinion errs when it states that: "The jury returned a verdict in favor of State Savings on Count I against Kimbrough, Corey and Young for $28,506.70, an amount equal to unpaid mechanic's liens." (Opinion, p. 10) (emphasis supplied).

It is immaterial that State Savings was the purchaser at the foreclosure sale. The $28,506.70 is included in the $913,000 capital investment in the premises.

Since January 1, 1893, this Court has not

had jurisdiction to decide matters at nisi prius. This Court has no jurisdiction to decide hypothetical or moot questions.

Hence, the finding in the Opinion that "Had the contractor received the full $761,500.00, as was represented to State Savings, it is reasonable to assume that the mechanic's liens would have been paid." (Opinion, p. 11), is not only hypothesizing on a moot question, but is doing so impermissibly at nisi prius.

The quoted hypothesis was not only an impermissible indulgence on the part of this Court, it was a legally impermissible hypothesis for the jury. It rewrites the guarantee contract by eliminating the phrase "as originally proposed in the mortgaging agreements" and substitutes therein an agreement to guarantee payment to Better Built Hawaii in the sum of $761,500.00.

The law of Hawaii, which the Opinion over-

looks, has been in force since Burbank vs. Wood, 2 Haw. 591, where at pp. 598 and 604-5, the principle is enunciated:

> "Courts have power to enforce contracts, not to make them... Courts must give construction to contracts, and not adjudge whether parties were wise in making them, or whether they have been judicious or unfortunate in fulfilling them."

In rewriting the contracts between State Savings and Loan and Appellants Kimbrough and Corey as well as the contract between Better Built Hawaii, Ltd. and Kauaian Development Co., Inc., the Opinion explicitly impairs the obligations under these contracts.

Article I, Section 10 of the Constitution of the United States provides in part:

> "No state shall... pass any... Law impairing the obligation of contracts..."

This constitutional provision has been interpreted by the courts to mean:

> "A contract having been entered into

between the parties, valid at the time, by the laws of the State, it is not competent even for its legislature to pass an act impairing its obligation, much less could any decision of its courts have that effect."

City of Chicago vs. Sheldon, 76 U.S. 50, pp. 55-56, 9 Wall. 50, 19, L. Ed. 594. See also Thompson vs. Lee County, 70 U.S. 327, 3 Wall. 327, 18 L. Ed. 177; Havemeyer vs. Iowa County, 70 U. S. 294, 18 L. Ed. 38; State of Louisiana ex rel Southern Bank vs. Pilsbury, 105 U.S. 278, 26 L. Ed. 1090.

In other words, judicial decision can no more impair a contract than can a legislative act. Union Bank of Richmond Va. vs. Board of Com'rs. of Oxford N.C., 90 F. 7.

Assuming arguendo, that this Court and the jury were correct, and Messrs. Kimbrough and Corey undertook to guarantee the costs of construction up to $761,500, then the second cause of action for fraud fails for the reason that there was no misrepresentation as to the cost of the construction contract.

The decision of the Court violates Appellants' constitutional rights; a rehearing ought to be held for the argument of this issue, the issue being one not covered on the original presentation to this Court, and arising out of the impermissible conclusions reached in the Opinion.

II.

The Court's Opinion is in Conflict with and in Derogation of Both the Common Law and the Decisional Law of Hawaii. The Opinion, Therefore, Abridges Appellants' Privileges and Immunities and Denies Them Due Process of Law and the Equal Protection of the Law as set Forth in the Fourteenth Amendment to the Constitution of the United States.

A. The Opinion and the Law of Contracts as it Previously Existed in this Jurisdiction:

At the time of the trial of this case, the law as to the construction of contracts was as set forth in Reed and Martin, Inc. vs. City and County, 50 Haw. 347 (1968), where the trial court was criticized for referring the issue to

the jury:

> "The general law is that the construction and the legal effect to be given a contract is a question of law to be decided by the court." citing among other cases Mackenzie vs. King, 30 Haw. 230 (1957).
>
> 50 Haw. at 348-9.

The Opinion herein ignores this rule of law completely, and now criticizes the lower court for substituting "its judgment for the jury's" (Opinion, p. 11). This Court then cites, in support of the proposition that jury verdicts should not be set aside where there is evidence to support a jury's findings: Ashford vs. Thos. Cook & Son, Ltd., 52 Haw. 113, 123, 471 P.2d 530, 536 (1970), a case involving "a factual issue" as to whether plaintiff was a "bona fide purchaser for value of stolen checks"; Fernandez vs. Hao, 43 Haw. 335, 336 (1959); a case where the issue in dispute was the existance of an agreement to do work without further charge; and Louis vs.

Victor, 27 Haw. 262, 263 (1923), which involved a negligence action.

The Court, in its Opinion, did not cite a single case in which the Supreme Court of Hawaii had previously determined that the construction of a contract was a matter for jury consideration. To the contrary, as stated above, it has been the settled law that the construction of a contract is for the court to decide. (Reed & Martin, Inc. vs. City and County, 50 Haw. 347; Mackenzie vs. King, 30 Haw. 230; see also authorities cited at 30 Haw. 236 including: 2 Elliot on Contracts, Section 1564; 1 Thompson on Trials [2d. Ed.] Sections 1072, 1073, pp. 901, 902 citing in footnote 35 the leading case of Macbeath vs. Haldimand, 1 T.R. 172, 180, 181, 182.)

B. The Opinion and the Law Relating to Fraud as it Previously Existed in this Jurisdiction.

Prior to the Opinion filed herein, the judicially settled law of the State of Hawaii, as it related to actions for money damages based on fraud or misrepresentation required that the Plaintiff must show by substantial evidence, more than a mere scintilla, that the events complained of were the sole variant as the cause of the financial loss which was suffered (Rainbow Island Productions, Inc. vs. Leong Agency, 44 Haw. 134).

There was not a scintilla of evidence in the case to show any causal connection between the alleged misrepresentations and the default which led to the foreclosure action.

The Opinion of September 9, 1971 either overlooks or repudiates this principle of law, which was fully briefed on appeal, although in Ellis vs. Crockett, 51 Haw. 45, at p. 52, this Court cited Toho Bussan Karsha, Ltd. vs.

American President Lines, Ltd., 265 F. 2d 418, which specifically holds that a case should be dismissed where the Plaintiff has not completed its burden of proof.

The Opinion impermissibly assumes a causal connection. This same Court refused to indulge in such an assumption in Ellis vs. Crockett, where it stated (51 Haw. p. 52):

> "If there are any special damages, they must be specifically stated pursuant to Rule 9(g). While the causal connection between damages and deceit need not be alleged with as great precision as might be possible or desirable, the complaint, at a minimum must adequately notify both appellee, and the court as to the nature of the claimed damages."

Mitchell vs. Branch & Hardy, 45 Haw. 128, is perhaps the outstanding authority in Hawaii on causal connection as required in the law of negligence. It can be easily paraphrased to meet the requirements in fraud: (1) there must be a causal connection between the alleged misrepre-

sentation and the damages alleged; (2) the mere co-existence of misrepresentation and loss, or the existence of the misrepresentation before the loss is not in itself sufficient to establish this causal connection; (3) the loss must be the result of, or flow from the misrepresentation before the Defendant is liable.

The fact that the project, as built, contained all and more than the plans originally called for completely negates any causal connection between the alleged misrepresentations and the foreclosure.

C. The Opinion and the Law Relating to Agency.

In Ellis vs. Crockett, 51 Haw. 45 at 54, this Court held:

> "...As to Crockett, who it is admitted by the plaintiffs in their complaint was acting as agent for the Haradas throughout all of the transactions in this case, we hold that he could not be sued independently if a suit against his principal is now barred..."

In the foreclosure proceeding, Civil No. 636, Fifth Circuit, State Savings entered an "Order Confirming Sale" setting forth the following figures:

Loan principal	$ 856,449.00
Accrued interest on same	$ 84,099.88
"Loan expenses"	$ 61,358.48
Interest on same	$ 984.91
Mechanic's liens	$ 28,506.70
Receiver's salary	$ 4,500.00
Commissioner's fee	$ 15,500.00
Total:	$1,051,398.97
Purchase price	$ 913,000.00
"Deficiency":	$ 138,398.97

This same "order Confirming Sale" was the sole and only evidence offered in the case on appeal to show damages. An analysis of the above figures shows that the $61,358.48 "Loan Expenses" included a $18,200 cash advance by State Savings to the Receiver prior to the foreclosure sale. State Savings paid $92,000 cash on the purchase price. This was its capital investment in the purchase made at the foreclosure sale.

The capital investment was disbursed as follows:

"Loan Expense" ($61,358.48 - $18,200.00)	$43,158.48
Mechanic's Liens	$28,506.70
Receiver's Salary	$ 4,500.00
Commissioner's Fee	$15,500.00
	$91,665.18

Rounded to $92,000.00, the amount of cash paid into Court by State Savings & Loan.

The bid price was $913,000.00. Thus, State Savings paid itself $821,334.82 on account of the mortgage loan, leaving a principal balance owed on the mortgage loan in the amount of $35,114.18. State Savings had retained $34,280.00 as a discount at the time of the mortgage loan, so that difference is now reduced to $834.18.

In bidding $913,000.00, State Savings in Civil No. 636, chose to forego this $834.18 as well as the $18,200.00 for cash advanced, or $19,034.18 out of pocket; together with accrued

interest of $84,099.88 on the mortgage loan and $984.91 interest loan expenses, and the initial discount of $34,280.00.

Recapitulating the "deficiency", as evidenced by the "Order Confirming Sale" in Civil No. 636, the facts indicate the following:

Out of Pocket "loss" recouped on resale	$ 834.18	
	$18,200.00	
	$19,034.18	$19,034.18
Accrued Income, converted to capital gain on resale:	$ 84,099.88	
	$ 984.91	
	$ 34,280.00	
	$119,364.79	$119,364.79
		$138,398.97

This recapitulation conclusively demonstrates that the mechanic's liens were no part of the "deficiency".

The mechanic's liens, having been discharged by payment in full from the proceeds of the sale of the assets of Kauaian Development, Appellants' principal, no further claim could

arise thereon against said principal or its agents. (See Ellis vs. Crockett, quoted supra).

Any deficiency judgment for the $138,398.97 was required to be taken against the mortgagor in Civil No. 636. Appellants were not individually parties to the contract. The Opinion seeks to make them individual endorsers of the mortgage note as punishment for their alleged misrepresentations. But even if this Court could modify and rewrite the mortgage instruments to hold Appellants liable, it would be for the debt of their principal, who has been discharged by State Savings. Therefore, if the law of agency set forth in Ellis vs. Crockett, is the law of Hawaii, and not a random application, then the actions herein against Appellants were barred.

It is interesting to note that in Ellis vs. Crockett, the above principle was applied against Mr. Corey's clients, Mr. Corey is

entitled to have it apply, now, against his adversaries.

To do less denies Appellants Corey and Kimbrough the equal protection of law guaranteed by the Fourteenth Amendment to the Constitution of the United States.

D. The Opinion and the Law Relating to Res Judicata.

State Savings and Loan alleged in its complaint (1) that Kauaian Development Co., Inc. defaulted on its mortgage; (2) that a direct and proximate result of the fraudulent misrepresentations the plaintiff suffered damages as of this date of $138,398.97. On the date of the filing of the complaint herein (September 15, 1966), Civil No. 636, was still pending in the Fifth Circuit, and the Order Confirming the sale to State Savings and Loan, which Plaintiff used to establish its damages, was not entered until

Thus, the Opinion does not rely on the facts of the case when it states: "The present claim could not have been 'properly litigated' as that term is used in the Ellis case, at the time of the mortgage foreclosure action, because at that time it was not known whether State Savings would suffer any damages. The damages were capable of being determined only after the mortgage was foreclosed and the property sold at a loss to the mortgagee, State Savings."

If the Court's Opinion permissibly assumes that the alleged misrepresentations as to the cost of construction were the producing cause of the foreclosure action, and if it permissibly assumes that the paper "deficiency" on the mortgage note constitutes a loss to State Savings, then the issue of misrepresentation belonged, as an alternate claim, in the foreclosure action.

The second suit was barred.

As the Opinion filed herein states:

> "'[t]he judgment of a court of Competent jurisdiction is a bar to a new action in any court between the same parties or their privies concerning the same subject matter, and precludes the relitigation, not only of the issues which were actually litigated in the first action, but also of all grounds of claim and defense which might have been properly litigated in the first action but were not litigated or decided.' In Re Bishop Estate, 36 Haw. 403, 416 (1943)."

To say that the damages could not be ascertained until after the foreclosure was completed, as the rationale for saying that this particular grounds of claim could not be litigated in the foreclosure action, requires the Court to also say that a claim for a deficiency judgment against Kauaian Development Company, Inc., did not lie in the foreclosure action, because the amount of the deficiency could not be determined until the foreclosure sale was completed.

Rule 18(b) of the Hawaii Rules of Civil

Procedure, in conjunction with Rule 2, specifically provides for joinder, where damages cannot be determined until after the first claim is decided:

> "... where personal jurisdiction is obtained over a defendant, the plaintiff must in that action secure any deficiency judgment to which he is entitled, and not seek it in a second action."
>
> Moore's Federal Practice, Vol. 3A, Sec. 18.09, p. 2031.

Appellants did not mistake the theory of res judicata pronounced in Ellis vs. Crockett. At 52 Haw. p. 53, this Court specifically held that since damages growing out of an action for fraud or deceit are capable of being ascertained by calculation, the action was required to be filed as a counterclaim in the foreclosure action.

It is respectfully submitted that if Ellis could have properly litigated his claim for deceit in the foreclosre action against his property,

then State Savings and Loan could have properly litigated their claim for deceit in Civil No. 636, Fifth Circuit Court.

E. The Effect of the Opinion Upon Appellants' Constitutional Rights Under the Fourteenth Amendment to the Constitution of the United States.

The effect of the Opinion herein is to surcharge the Appellants with State Savings' paper loss on a mortgage foreclosure, without a basis in the record to show that (a) State Savings suffered any loss, on account of the alleged misrepresentations or for any other reason; or (b) that the discounted contract between Better Built Hawaii and Kauaian Development Company was causally connected with the mortgagor's default.

Due process of law forbids such surcharges or punishments. The guarantees of the Fourteenth Amendment prohibit the taking of one's property and giving it to another, contrary to

settled usages and modes of procedure, 16 Am. Jur. 2nd, Constitutional Law, Sec. 544, p. 935.

"...All courts, even the highest, are more or less limited in their jurisdiction... Though the court may possess jurisdiction of a cause, of the subject matter, and of the parties, it is still limited in its modes of procedure, and in the extent and character of its judgments. It must act judicially in all things, and cannot then transcend the power conferred by law..."

Windsor vs. McVeigh, 93 U.S. 274, 282.

"...Jurisdiction may be defined to be the right to adjudicate concerning the subject-matter in the case. To constitute this there are three essentials: First, the court must have cognizance of the class of cases to which the one adjudged belongs; second, the proper parties must be present; and third, the point decided must be, in substance and effect, within the issues. That a court cannot go out of its appointed sphere, and that an action is void with respect to strangers to its proceedings, are propositions established by a multitude of authorities... A judgment upon a matter outside of the issue must, of necessity, be altogether arbitrary and unjust, as it concludes a point upon which the parties have not been heard."

Reynolds vs. Stockton, 140 U.S. 254, 268.

See also Brinkerhoff-Faris Co. vs. Hill, 281 U.S. 673, 677-678, 680-681; Owenby vs. Morgan, 256 U. S. 94, 111; and Frank vs. Mangrum, 237 U.S. 309, 326.

> "Equal protection of the law in its constitutional sense implies that all litigants similarly situated may appeal to the courts for relief under like conditions and without discrimination."
>
> Republic Pictures Corp. vs. Kappler, 151 F.2d 543, 162 ALR 228, affirmed 66 S.Ct. 523, 327 U.S. 757, 90 L. Ed. 991.

Judicial action in private disputes is a form of state action required for application of the Fourteenth Amendment prohibiting state from abridging the privileges and immunities of citizens or denying equal protection of its laws to any person. Hosey vs. Club Van Cortlandt, 299 F. Supp. 501, citing Shelley vs. Kraemer, 334 U.S. 1; 68 S.Ct. 836; 92 L.Ed. 1161, Barrows vs. Jackson, 346 U. S. 249, 73 S.Ct. 1031, 97

L. Ed. 1586 and New York Times vs. Sullivan, 376 U.S. 254, 84 S.Ct. 710, 11 L.Ed. 2d 686.

III.

The Court's Opinion, in Part VIII Thereof, Exceeds Its Jurisdiction, Goes Beyond the Scope of the Issues Submitted to it for Decision, and Violates Rule 16 of the Supreme Court, and the Fourteenth Amendment to the Constitution of the United States.

Heretofore, it has been the law of Hawaii that disciplinary action as to members of the Bar is to be had under Rule 16 of the Rules of the Supreme Court.

> "If the commissioners find the attorney guilty of unprofessional conduct, he has a right to contest the finding by filing exceptions to the report in this court... The power to regulate... disciplining of attorneys is judicial in nature and inherent in the courts ...Subject to the limitation that the essential elements of notice and opportunity to be heard must be preserved, the court may prescribe such procedure in disciplinary proceedings that it deems appropriate."
>
> In Re Trask, 46 Haw. 404, 415 (emphasis supplied).

The Trask case further enunciated as a

principal of law that:

> 'Civil liability is not determinable and has no effect in disciplinary proceedings.'

46 Haw. at p. 414.

Section VIII of the Opinion filed herein violates the fundamental rights of Appellant Corey to due process of law, in connection with his practice of law. It impugns his integrity as an attorney, and publicly holds him out as being of bad repute professionally.

Further the said portion of the Opinion contains a constitutionally impermissible prejudgment of the complaint now pending against him under Rule 16, filed by J. Ralph Brown, the principal officer of State Savings and Loan (note also that a complaint was filed by James Campbell, attorney for State Savings and Loan).

At stark variance with Section VIII of the Opinion is the manner in which the Opinion deals

with the conduct of J. Ralph Brown and James Campbell:

> "There was presented at trial conflicting evidence as to what point in time State Savings learned of the double contracting. Testimony was given indicating that State Savings' representative may have learned about the lower construction contract during his counsel's preparation for the foreclosure action." (Opinion, p. 7) (Emphasis supplied).

What is characterized as "conflicting evidence"?

The Amended Complaint, signed by James S. Campbell alleged "That until that date ('in the month of February 1966') plaintiff had not known that the construction contract was for any lesser amount than $761,000.00..."

At R. 147 appears the Affidavit of J. Ralph Brown in which he states under oath "that affiant did not know and had never been told nor informed that the contract was for any lesser sum and after State Savings and Loan Association had

rested its case in the mortgage foreclosure proceeding, he ascertained for the first time... that the real construction contract was for $600,000 plus $60,000 worth of apartments."

The conflicting evidence is in the Record of the case, as supplemented by the Record in Fifth Circuit, Civil No. 636:

(1) The "Answer, Cross-Claim and Summons" filed by Better Built, and receipt of copy signed by James S. Campbell on August 27, 1965 (R. 636, file 1, pp. 66-51).

(2) The Motion to File Amended Answer and Counter-Claim to Cross Claim by Better Built, and receipt of copy signed by James S. Campbell on October 8, 1965 (R. 636, file 1, pp. 200-184).

The conflicting evidence is Mr. Brown's testimony:

"Q. Prior to the time when trial com-

menced in January 1966, did your counsel call your attention to the fact he had received these documents? (The $600,000 contract, Exhibit 15, and its modification, Exhibit 16).

"A. I think that perhaps during some research that he made in preparing the case for trial that he uncovered some of the information about the double contracting and that it was mentioned to me by him, but I don't remember specifically the details of it."

(TR. 245)

Is this Court, in its Opinion, to raise "serious questions of impropriety" in reference to one attorney's business transactions, while at the same time it ignores Rule 11 of the Hawaii Rules of Civil Procedure with respect to adverse counsel?

In Section VIII of the Opinion, the Court delivered its Opinion based on its subjective moral reactions on a question not properly before it. No evidence on this issue was taken pursuant to Rule 16 of the Court's own rules. The Court

has thus committed error in transcending its own jurisdiction, as well as in transcending due process and the equal protection of the laws guaranteed by the due process and equal protection clauses of the Fourteenth Amendment to the Constitution of the United States.

In addition to the Petition for Rehearing, Appellant Ralph E. Corey respectfully moves that Part VIII of the Opinion be stricken.

DATED: Honolulu, Hawaii, this 30th day of September, 1971.

Respectfully submitted:

HELEN B. RYAN
Suite 207, 1136 Union Mall
Honolulu, Hawaii 96813

Attorney for Ralph E. Corey
and Robert M. Kimbrough.

FILED
SEP 30 3 59 PM 1971
Clement J. H. Chun
CLERK SUPREME COURT

APPENDIX D

PER CURIAM OPINION

STATE SAVINGS & LOAN ASSOCIATION, Plaintiff-Appellant on Count I, Appellee and Cross-Appellant on Count II, *v.* RALPH E. COREY and ROBERT M. KIMBROUGH, Defendants-Appellees on Count I, Appellants and Cross-Appellees on Count II, and WALLACE C. S. YOUNG, Defendant-Appellee on Count I Appellant on the Cross-Claim in Count I

and

RALPH E. COREY and ROBERT M. KIMBROUGH Third-Party Plaintiffs, *v.* BETTER BUILT HAWAII, LTD., Third-Party Defendant

No. 5021

PETITION FOR REHEARING AND MOTION TO AMEND OPINION BY STRIKING

October 5, 1971

RICHARDSON, C.J., ABE AND KOBAYASHI, JJ., AND CIRCUIT JUDGE HAWKINS IN PLACE OF MARUMOTO, J., DISQUALIFIED, AND CIRCUIT JUDGE M. DOI IN PLACE OF LEVINSON, J., DISQUALIFIED

Per Curiam. The petition for rehearing and motion to amend opinion by striking are without merit and denied without argument.

Helen B. Ryan (*Ryan & Ryan* of counsel) Attorney for Ralph E. Corey and Robert M. Kimbrough, for the petition.

APPENDIX E

JUDGMENT ON APPEAL

Pursuant to the opinion of the Supreme Court of the State of Hawaii filed September 9, 1971, this cause is remanded to the lower court with the following directions:

> "The verdict of the jury as to all counts is reinstated and the order of the trial court for a new trial on the issue of damages is reversed. Remand for entry of judgment consistent with this opinion."

DATED: Honolulu, Hawaii, October 22, 1971.

BY THE COURT:

/s/ Clement J. H. Chun
Clerk

APPROVED BY THE COURT:

/s/ Bert T. Kobayashi
Bert T. Kobayashi
Associate Justice

FILED
OCT 22 8 AM 1971
Clement J. H. Chun
CLERK SUPREME COURT